



FINANCIAL INSTITUTIONS TODAY

News and topics of interest to financial institutions regulated by the Department of Banking and Finance

Monthly Bulletin #12

December 2011

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The Control Environment: Regulatory Standards for Internal Audit (part 4 of a series)

"Reality is merely an illusion, albeit a very persistent one." – Albert Einstein

The quote from Albert Einstein implies that perception and reality are not always one and the same, but reality persists because it is based on facts that we all have to face at some point. An effective internal audit function helps the board of directors align perception of a financial institution's condition to the facts. This article will focus on regulatory standards and expectations for an effective internal audit function.

The FDIC [Risk Management Manual of Examination Policies](#) (Exam Manual) outlines basic regulatory expectations for the control environment, including an effective internal audit function. The Exam Manual states that the board of directors and senior management should have reasonable assurance that the system of internal controls prevents or detects significant inaccurate, incomplete, or unauthorized transactions; deficiencies in the safeguarding of assets; unreliable financial reporting (which includes regulatory reporting); and deviations from laws, regulations, and the institution's policies. The board and senior management are responsible for ensuring that the system of internal controls operates effectively (this responsibility cannot be delegated to others, either within or outside the institution), and the internal audit function is an important element in assessing effectiveness of the internal control system. The internal audit function of each institution should be appropriate to its size, complexity, and nature of operations. An effective internal audit function provides clear, concise, and timely information on weaknesses so that management can implement prompt and appropriate corrective actions. Minimum standards for safety and soundness are codified in Part 364 of FDIC Rules and Regulations, which includes the following requirements for internal audit:

- 1) Adequate monitoring of the institution's internal control system;
- 2) Independence and objectivity;
- 3) Qualified personnel;
- 4) Adequate testing and review of information systems;
- 5) Adequate documentation of tests and findings of any corrective actions;
- 6) Verification and review of management's actions to address material weaknesses; and
- 7) Review by the audit committee or board of directors of internal audit effectiveness.

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The Control Environment: Regulatory Standards for Internal Audit (part 4 of a series)

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Similar standards for credit union supervisory committee audits are addressed in Part 715 of NCUA Rules and Regulations and Rule 80-2-6 of the Department of Banking and Finance. Each of the required elements listed earlier is important, but elements #2 and #3 deserve additional comment. An internal audit function is only as good as the quality of personnel staffing that function. To be effective, internal audit should be staffed by personnel with background, experience, and training capable of timely identification of material risks embedded within the financial institution's unique operating model; with ability to clearly communicate the corrective actions needed; and stature within the organization to ensure that timely and appropriate corrective actions are implemented. To be effective, independence and objectivity of the audit function is crucial. The internal audit function should be positioned so that the board of directors, audit committee, and/or supervisory committee (oversight body) has confidence that internal audit will perform its duties with impartiality and not be unduly influenced by managers of day-to-day operations. The oversight body should oversee the internal audit function, evaluate its performance, and assign responsibility for design and execution of the audit program to a member of management independent of conflicting operational responsibilities. Ideally, the internal audit manager should report directly and solely to the oversight body regarding both audit issues and administrative matters, including resources, budget, appraisals, and compensation.

An effective internal audit function serves as an indispensable check and balance. Well designed, targeted reporting from this function informs sound decision making by executives and boards of directors thereby promoting healthy, successful financial institutions. In the next article, we will outline regulatory standards and expectations for the independent loan review function.

DBF Outreach AND UPCOMING SPEAKING ENGAGEMENTS

- ❖ Commissioner Braswell will be speaking at the GBA's Legislative/Economic Forum being held on **January 11th** at the Ritz-Carlton Hotel, Atlanta. He will also be speaking on **January 24th** at the [GCUA's 2012 Grassroots Academy](#) in the Empire Room, 20th Floor, James H. Sloppy Floyd Building, Atlanta, and on **January 25th** at the CBA's "[Day at the Capitol](#)" held at the Georgia Freight Depot just across from the Capitol in Atlanta. Commissioner Braswell will also be participating on a regulatory panel at the CBA Regulation & Taxation Committee meeting on **February 2nd** at CBA Headquarters in Atlanta, GA.

2012 State Holidays

In accordance with O.C.G.A. § 1-4-1, Governor Nathan Deal proclaimed the following dates in 2012 as public and legal state holidays when the Capitol and all State agencies will be closed:

Holiday Name	Date Observed
New Years Day 2012	January 1 st – Sunday was observed Monday, Jan 2 nd
Martin Luther King Jr.'s Birthday	January 16 th – Monday
Robert E. Lee's Birthday	January 19 th – Thursday Will be observed on Friday, November 23 rd
Washington's Birthday	February 20 th - Monday Will be observed on Monday, December 24 th
Confederate Memorial Day	April 26 th – Thursday Will be observed on Monday, April 23 rd
Memorial Day	May 28 th – Monday
Independence Day	July 4 th – Wednesday
Labor Day	September 3 rd – Monday
Columbus Day	October 8 th – Monday
Veterans' Day	November 12 th – Monday
Thanksgiving Day	November 22 nd – Thursday Lee's Birthday will be observed on Friday, November 23 rd
Christmas Day	December 25 th – Tuesday Washington's Birthday will be observed on Monday, Dec. 24 th

Georgia Residential Mortgage Act Fee Reminder

The \$10.00 per loan fees required by O.C.G.A. Section 7-1-1011(b)(2) and Department Rule 80-5-1-.04 are due **no later than March 1, 2012**, for residential mortgage loans closed during the period July 1, 2011, through December 31, 2011.

Per Department Rule 80-5-1-.04(b), GRMA per loan fee reporting / remittance must be completed online through the Department's secure website. Reporting is required even if no residential mortgage loans were made and no fees are due. To avoid fines for failure to report / remit GRMA fees, reporting must be completed by the deadline noted above.

With the on-line payment process, the Department accepts either ACH drafts on a checking account or payments by Visa, MasterCard, AmericanExpress, or DiscoverCard credit cards. Reporting and fee payment must be done online from our secure website at: <https://bkgfin.dbf.state.ga.us/GRMAFee.html>.

Action on Applications for the Month of December:

The following is a summary of official action taken on applications by State Financial Institutions under Chapter 7-1 of the Code of Georgia and petitions for Certificate of Incorporation of Financial Institutions and other matters of interest during the month of December 2011.

FINANCIAL INSTITUTION CONVERSIONS

<u>PREVIOUS NAME</u>	<u>CONVERTED TO</u>	<u>APPROVAL</u>	<u>EFFECTIVE</u>
DOCO Regional Federal Credit Union	DOCO Credit Union Albany Dougherty County	11-10-2011	12-30-2011
Fort Gordon Federal Credit Union	Fort Gordon and Community Credit Union Fort Gordon Richmond County	12-09-2011	12-30-2011

APPLICATIONS TO ESTABLISH A BRANCH OFFICE

<u>FINANCIAL INSTITUTION</u>	<u>BRANCH OFFICE</u>	<u>APPROVAL</u>	<u>BEGIN BUSINESS</u>
First Bank of Georgia Augusta	Evans Branch Office 4349 Washington Road Evans, GA 30809 Columbia County	12-28-2011	
United Community Bank Blairsville	Arden Branch Office 2349 Hendersonville Road Arden, NC 28704 Buncombe County	09-08-2011	12-19-2011
Metro Bank Douglasville	Kennesaw Branch Office 2454 Kennesaw Due West Road Kennesaw, GA 30144 Cobb County	07-05-2011	12-12-2011

NOTICE OF CHANGE IN NAME

<u>PREVIOUS NAME</u>	<u>NEW NAME</u>	<u>APPROVAL</u>	<u>EFFECTIVE</u>
Albany Federal Employees Credit Union Albany	Members United Credit Union	12-07-2011	

FINANCIAL INSTITUTION MERGERS

<u>FINANCIAL INSTITUTION (SURVIVOR)</u>	<u>MERGED INSTITUTION</u>	<u>APPROVAL</u>	<u>EFFECTIVE</u>
Atlanta Postal Credit Union Atlanta, GA	Human Services Employees' Credit Union Atlanta, GA	12-28-2011	
Georgia's Own Credit Union Atlanta, GA	The Thrift Credit Union Atlanta, GA	12-09-2011	12-31-2011

FINANCIAL INSTITUTION**(SURVIVOR)**Georgia Bank & Trust Company of Augusta
Augusta, GA**MERGED INSTITUTION**Southern Bank & Trust
Aiken, SC**APPROVAL**

12-01-2011

EFFECTIVE

12-05-2011

Peoples State Bank & Trust
Baxley, GACitizens State Bank
Kingsland, GA

Pending

The Farmers Bank
Forsyth, GAThe Bank of Perry
Perry, GA

Pending

The Farmers Bank
Forsyth, GAThe Peoples Bank
Covington, GA

Pending

The Farmers Bank
Forsyth, GASpivey State Bank
Swainsboro, GA

Pending

Glennville Bank
Glennville, GATippins Bank
Claxton, GA

12-09-2011

Bank of Upson
Thomaston, GAThe First National Bank of Polk County
Cedartown, GA

Pending

Bank of Upson
Thomaston, GAPeachtree Bank
Maplesville, AL

Pending

Bank of Upson
Thomaston, GABank of Chickamauga
Chickamauga, GA

Pending

**APPLICATIONS TO BECOME A BANK HOLDING COMPANY
AND/OR TO ACQUIRE VOTING STOCK OF A FINANCIAL INSTITUTION****FORMATIONS ONLY****BANK HOLDING COMPANY**Sterne Agee Group, Inc.
Birmingham, AL**TO ACQUIRE**SUM Financial Corporation
Pearson, GA**APPROVAL**

Pending

**NOTIFICATION OF APPROVAL OF APPLICATION
TO SERVE A RESIDENTIAL GROUP COMMON BOND****CREDIT UNION**Five Star Credit Union
Dothan, AL**RESIDENTIAL GROUP COMMON BOND**

Seminole County, GA

APPROVAL

12-14-2011

CHECK CASHER LICENSES ISSUED

<u>CITY</u>	<u>APPLICANT NAME</u>	<u>TRADE NAME</u>
Atlanta	Blessings FYI, LLC	Red Carpet Package Store
Newnan	* Carniceria Del Valle LLC	Carniceria Del Valle
Fort Valley	Chong Hui Mok	Jason's Mini Mart
Atlanta	* Ciera Knox	CeCe's Business Services
Athens	* Clemente Garcia	Costa De Jalisco #2
Walnut Grove	* Elite C Store, Inc.	Walnut Chevron
Garden City	* Garden City Snack N Go, Inc.	Amit Food Mart #4
Carrollton	* Juan Rodriguez	Tienda Centro America
Dalton	* Maria J. Cervantes	Taxi Veloz
Dalton	* Miguel A. Silva	Frontera Income Tax
Fitzgerald	* Rajnick, Inc.	Super Mart Spirits
Sandy Springs	Yogi 11, Inc.	Exxon Food Mart

* =Registered (O.C.G.A. 7-1-700 et al)

MONEY TRANSMITTER LICENSES ISSUED**MONEY TRANSMITTER**

Smart Plus USA LLC
Minneapolis, MN

APPROVAL

12-21-2011

**GEORGIA
DEPARTMENT OF
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The Department is the state agency that regulates and examines banks, credit unions, and trust companies chartered by the State of Georgia. The Department also has regulatory and/or licensing authority over mortgage brokers/processors, lenders and loan originators, money service businesses, international banking organizations, and bank holding companies conducting business in Georgia.

Our **Mission** is to promote safe, sound, competitive financial services in Georgia through innovative, responsive regulation and supervision.

Our **Vision** is to be the best financial services industry regulator in the country – Progressive. Proactive. Service-Oriented.

We're on the Web!

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Our Motto is: "Safeguarding Georgia's Financial Services"

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